to increase his holdings. The benefit of increased production at lowered expense should, in time, be passed on to the final consumer of beef.

This phase of the operations of the Federal Reserve Act will be of distinct benefit, and possibly also the least dangerous of all forms of legislation designed to assist American agriculture.

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WASHINGTON NOTES

THE RURAL CREDIT BILL

The second important banking measure of the Wilson administration was introduced in both Houses of Congress on May 12, by Representative Bulkley, as H. R. 16478, and by Senator Hollis as S. 5542. This measure is the result of a winter's series of hearings and investigations followed by elaborate discussion on the part of a joint subcommittee of the Senate and House committees on banking and currency. The work was undertaken at the instance of President Wilson himself and grew out of a promise made by him during the deliberations on the Federal Reserve Act in the House of Representatives nearly a year ago. While the Reserve Act was being debated in a House caucus, it was attempted to introduce into the measure some provisions designed to bring about especially favorable treatment for paper originating with farmers. These proposed changes were obnoxious to the President and his advisers, and in order to quiet the demand for them, a pledge was given that should they not be admitted, a farm-credit bill would be developed and would receive the support of the administration before the legislative body. The outcome was a request from President Wilson to the leaders of the two Houses early in the past winter to begin work, and as already pointed out, that work led up to the present measure. In the new bill, the basis for the proposed farm credits is afforded by a provision creating "national farm loan associations," which may be established practically anywhere throughout the United States by would-be incorporators. The establishment of the loan associations might take place through the payment of capital stock by outsiders in search merely of an investment, or might be effected through the action of would-be borrowers who desired to organize an association and at the same time to secure loans from it. Provision is made for twelve federal land banks to be created by the use of capital contributed either by outside investors

or by the government or both, and by contributions of capital to be furnished by farm loan associations desiring to do business with the land banks. The land banks themselves would be restricted to a particular class of operations, that of receiving mortgages from the farm loan associations, placing these mortgages in trust with federal reserve agents, and receiving back from the reserve agents bonds in denominations as low as $100, such bonds to be offered on the market to investors. The farm-loan associations would be required to make loans for thirty years on an amortization basis, but would be limited in their operations to twenty times the amount of their capital and surplus. That is to say, with a $10,000 capital (the minimum required of any farm-loan association) the association in question would be allowed to sell to a land bank mortgages not to exceed $200,000 in amount, disposing of them of course from time to time; while the land bank itself from time to time would hypothecate them and others obtained from similar loan associations with a federal reserve agent, and obtain bonds which would be sold to investors. Singularly enough, on the very day that the bill was introduced, President Wilson, just before a party caucus which was to have ratified the new measure, expressed his dissent from its terms and requested that it be laid aside for the session. His objection to the bill was found in connection with section 30 which reads as follows:

SEC. 30. That the Secretary of the Treasury shall, upon application of one or more of the Federal land banks herein established, and upon the recommendation of the Federal Reserve Board, purchase from Federal land banks farm loan bonds not previously issued or sold, in an amount not to exceed $50,000,000 during any one year, and shall pay for the same out of any money in the Treasury not otherwise appropriated: Provided, That any land bank which may sell its bonds to the Secretary of the Treasury, as provided by this section, shall by appropriate action of this board of directors, as consideration for the accommodation afforded by the Secretary of the Treasury, enter into an agreement that at any time on thirty days' notice from the Secretary of the Treasury said land banks will cease to make any investments whatever, and will devote all receipts from any source, except so much as may be necessary for the payment of maturing liabilities, to the redemption of its bonds so purchased and held by the Secretary of the Treasury. The enforcement of said agreement shall be at the discretion of the Secretary of the Treasury.

It is thus seen that an exceedingly important issue, not likely to be easily disposed of, has been raised between the head of the national administration and the leaders in Congress, in connection with the question whether the new rural-credit system shall be placed upon a basis of

direct government aid or shall be left to stand upon its own feet. The continued agitation of the subject by agricultural newspapers and farmers' organs of opinion has brought the demand for farm-credit legislation practically to a point which politically compels action; while it is further true that of those who demand such action a very considerable percentage believe in the practical guaranteeing of the undertaking by the government. Whether action is had at the present session of Congress or not with reference to any farm-credit bill, it is, at all events, clear that the question is not one that is likely to be set at rest in the near future. A notable feature of the present situation in Congress is that many of those who are most earnestly supporting the idea of government purchase of farm-loan bonds are Repubicans. The demand for a subsidy of this kind is, in fact, not confined to any party or section of the country, but is nearly universal throughout the agricultural regions.

ARGUMENTS AGAINST HIGHER RAILROAD RATES

The government's side in the pending advanced-rate cases growing out of the request of the railways of the country for higher freight tariffs has been offered by Louis D. Brandeis, special counsel for the Interstate Commerce Commission in a lengthy brief of more than 200 pages, accompanied by many charts and tabular presentations. This constitutes possibly the most comprehensive argument against the granting of higher rates to the railroads that has yet been presented in the whole course of the discussion, extending over the past five years, since the initiation of the first advanced-rate demands in President Taft's administration. The substance of Mr. Brandeis' argument in the matter is that the carriers do not make out a case for themselves because of the failure to adjust the proposed higher rates in a workable and satisfactory way, and because of the failure, or what he charges to be such, to demonstrate that the revenues of the roads actually do call for enlargement. In general, it is admitted that the contentions that higher incomes are needed and that the proposed advance is reasonable might be sustained were a logical case presented by the roads: but the argument is put forward that the railways have weakened their case, in that the tariffs submitted by them do not increase all rates, since no passenger rate is included; in that the freight tariffs submitted show, in some cases, no increase in rates, while the increases actually shown are not in like proportions; and in that there is direct evidence of unreasonableness as to many important freight rates proposed. The latter point is the one in which

Mr. Brandeis most fully recognizes the need of detailed specifications in order to support his point of view, and he therefore contends that it is shown by the hearings before the Interstate Commerce Commission that if net earnings on passenger business were as large as net earnings from freight there would be no need for any advance; further, that the roads have unreasonably exempted anthracite coal, iron ore, sugar, live stock, iron rods, apples, iron and steel rails, fresh fish, sugar beets, zinc ore, and some 260 or more miscellaneous commodities from the operation of the proposed higher rates; and that furthermore, in some cases the proposed increases are as low as 3 per cent on existing rates, while in a few cases they are as high as 50 per cent. Mr. Brandeis contends that the carriers introduced no evidence except that of their financial needs to show the reason for the proposed increases, while on the other hand many shippers introduced good evidence to show the unreasonableness of what was suggested. In summing up the case, he says:

> Hundreds of thousands of rates are involved in the present hearing. Certain general considerations may, of course, apply to all or a large part of these rates; but the railroads must satisfy the minds of the Commission that each of these rates is just and reasonable; and the Commission has no power to consider the propriety of the rates taken collectively, except in so far as their reasonableness is determined by general considerations. Its power is limited to the determination, in the case of each rate, whether in and of itself it is just and reasonable, although each rate should be considered in its relation to other rates, and as a part of the rate structure.

While it is admitted that the financial necessities of railroads are one of the elements to be considered in determining the reasonableness of rates, the argument is strongly urged that it is in any event the duty of the roads to distribute their higher charges justly among all their traffic —on the one hand between freight and passenger service, and on the other hand among the various articles of commerce, and among the communities to be affected. It is conceded that in the Central Freight Association territory the adjustment has been better made than elsewhere, and the financial needs of the roads are greater, but it is denied that the Commission has the power to grant any general or flat increase. On this point the argument runs as follows:

> Though a general need of greater revenues be shown, it seems clear that it should be provided in ways other than through the tariffs filed. The alleged horizontal increase would intensify existing injustice and discrimination in rates. It would give additional revenues where relief is not needed and would fail to give adequate revenues to carriers who are most in need of relief. It would burden some traffic already extremely remunerative to the

carriers and exempt from contribution other which is unremunerative. The prosperous coal-carrying roads would have their revenues largely increased, while other roads less prosperous, having a large passenger traffic, would get a much smaller addition to their revenues. The impropriety of raising additional revenues by the proposed tariff finds a striking illustration in the condition of Central Freight Association territory. There higher rates seem to be required; but relief cannot be had without a readjustment of the rate schedules.

It is clear that if this doctrine be accepted by the Commission it will practically involve the application of a new theory of the relation of the Interstate Commerce Commission to the whole railroad-rate situation, inasmuch as it necessarily implies that every individual rate must be adjusted upon a footing to be independently proposed and defended by the carriers, so that the advancing of rates all around would be an almost interminable process. Whether the Commission, in handing down its decision, will accept Mr. Brandeis' views or not on this subject, is not announced, but such acceptance will necessarily commit it to a method of dealing with rate increases in the future that is certain to hamper, in a very serious way, all subsequent proposals for advances.

PROGRESS WITH THE NEW BANKING SYSTEM

The work of organizing the new federal reserve system has been carried considerably farther during the past month by the action of the Organization Committee in designating five banks in each district to make an organization certificate as provided by the reserve law. The designation of these banks was effected on May 11 after previous consultation had been had, and the banks had agreed to perform this function. During the thirty days prior to May 8, the actual and formal subscriptions to stock were solicited and received from the banks, practically all of those which had previously indicated their intention of entering the system responding with the formal pledge of funds in the manner required by the act. At the time of designating the banks in the way already indicated circulars were issued to them in which the provisions of the law with respect to the election of directors were enumerated and some additional explanation was offered respecting the manner of choosing electors and the subsequent selection of directors of the several banks. In the same official circular in which these instructions were given, the Organization Committee further made a classification of the subscribing banks in each district into three groups for voting purposes. The classification is of very great interest because of the requirement of the law that the banks shall be grouped as nearly as

possible according to similarity of capitalization and in about equal numbers for each group. In each such group two directors, one a banker and the other a "business man," are to be chosen. The grouping indicated by the committee in the circular referred to is as follows:

Dist. No.	Federal Reserve City	Group No. 1		Group No. 2			Group No. 3	
		No. of Banks	Aggregate Capital and Surplus (This Sum or More)	No. of Banks	Aggregate Capital and Surplus		No. of Banks	Aggregate Capital and Surplus (This Sum or Less)
					Less Than	More Than		
1.	Boston.....	148	$250,000	148	$250,000	$120,000	148	$120,000
2.	New York.....	160	190,000	159	190,000	70,000	159	70,000
3.	Philadelphia...	253	190,000	252	190,000	75,000	252	75,000
4.	Cleveland.....	257	150,000	255	150,000	60,000	255	60,000
5.	Richmond.....	160	140,000	158	140,000	60,000	158	60,000
6.	Atlanta.....	126	130,000	124	130,000	60,000	124	60,000
7.	Chicago.....	319	120,000	319	120,000	55,000	319	55,000
8.	St. Louis.....	151	100,000	151	100,000	50,000	151	50,000
9.	Minneapolis...	230	60,000	230	60,000	30,000	230	30,000
10.	Kansas City...	279	75,000	277	75,000	40,000	277	40,000
11.	Dallas.....	245	100,000	244	100,000	50,000	244	50,000
12.	San Francisco..	172	120,000	170	120,000	55,000	170	55,000

A consideration of this classification shows that, as was expected, the balance of power in each district would be in the hands of the smallest banks, inasmuch as, upon the "one-bank-one-vote" principle, the group with the greatest number of institutions is in control. The comparatively small number of the very large banks appears to throw the control, even of the first group in which these banks are included, into the hands of the institutions of lower capitalization. This fact has aroused an increasing degree of dissatisfaction, as its bearing has become more and more evident, and an effort is already on foot to secure a ruling or a court decision, based upon the supposedly ambiguous language of the Reserve Act, which would permit the various institutions to vote in all three groups. Thus far there appears to be no prospect of success for any such movement, although the fact that it has been initiated is symptomatic.

The limited degree of progress to the present date and the fact that President Wilson, although he has announced the names of the members of the Federal Reserve Board, has not sent them to the Senate, is taken to indicate that no definite organization of the new banks can be effected for a good while to come. Official statements that the banks will be in operation by the first of August must be heavily discounted. The time required for the nomination and final confirmation of the members of the

board is estimated at from two to four weeks, so that it can hardly be expected that the members will be able to qualify before July 1. Meanwhile, a period nearly as long as that will be necessary for the election of the six members of each of the directorates who are to be chosen by balloting. The board will then be called upon to nominate three additional members in each district, one to be Federal Reserve Agent, one Deputy Federal Reserve Agent, and the third a director without stated duties or functions. When this process of completing the directorates has been finished, the banks will be technically organized, but it will remain to select a personnel and to establish banking offices with the essential equipment, vaults, and other facilities. It will be surprising if this detailed work, technical but important as it is, can be very speedily carried through to success.

It is now practically decided that so soon as the Reserve Board is definitely organized it will be called upon to determine the policy to be adopted by the new banking system with respect to several broad questions. Prominent among these is the choice of the kind of commercial paper to be admitted to rediscount by the several banks. The board is given the power to define the paper admissible to rediscount and it will be obliged to determine whether single-name and double-name paper shall be considered equally available for the purpose, or whether such paper shall be divided in different proportions between the single- and double-name classes. A second point which it is now planned to present at the earliest possible moment is whether the new banks shall undertake a complete clearing process from the very outset, or whether they shall become members of existing clearing-houses, and shall delegate a part of their clearing functions in that way to already existing institutions. The adoption of a uniform accounting system which shall be made mandatory upon all reserve banks and which shall include complete provision for regular reports and statements both to the Reserve Board and to the public, in accordance with the terms of the act, has also been determined upon as a matter for immediate consideration. Subordinate to these points will be the adoption of by-laws for the reserve banks and for the board itself, and the formulation of rules for the internal management of the banks themselves, in the transaction of their routine business.

THE ANTI-TRUST PLANS

A new phase of the anti-trust discussion has been opened by the offering of revised measures in both Senate and House for the control

of industrial combinations, such measures now being presented with the understood approval of the administration. This constitutes practically the third epoch in anti-trust discussion since the subject was originally brought to the attention of Congress last January by President Wilson in a formal message. The first stage of the work was seen in the presentation of the various crude bills which had been hastily drafted in the Judiciary and the Interstate and Foreign Commerce committees of the House; the second stage was met in the offering of those bills in modified form, as a result of hearings and pressure from the administration. The new measures—the Newlands bill, S. 4160, the Covington bill, H.R. 15613, and the Clayton bill, H.R. 15657—now constitute the final attempt to harmonize the ideas of the so-called leaders in Congress and of President Wilson and his advisers. In this program, a factor which is now evidently foremost is the proposal to establish a trade commission such as is provided for in the Newlands and Covington bills. If this plan be carried through in either form, much of the remainder of the program will follow automatically; if it be defeated or laid aside it is probable that the whole of the program will go with it. In the Newlands trade commission bill provision is made for an interstate trade commission of five members in which shall be merged the Bureau of Corporations and its subordinate organizations. This commission is given the power to investigate any particular concern it may choose, to require periodical reports in all cases, and to transmit or publish information in various specified instances. In government suits under the anti-trust laws the courts may refer the form of the decree to be entered to the commission as a Master in Chancery, and after such a decree has been entered the commission must investigate the manner in which the decree has been or is being carried out. Annual reports are required, and the commission must prescribe a system of reports for all classes of corporations, while it must also report to the courts and the Attorney-General any facts it may ascertain which in its judgment deserve the action and attention of the judicial department of the government. The question of interlocking directorates, which has recently received so much attention, is also dealt with, it being provided that if any corporation engaged in interstate commerce has among its directors or officers a director or officer of another corporation carrying on a competitive business, it shall be liable to prosecution unless it shall file a petition with the commission alleging that the business of the corporations is not competitive, or that, if competitive, the community of directors does not impair competitive conditions. Hearings on such

petitions must be held in public by the commission. On the question of holding-companies, the bill provides that, where any concern engaged in interestate trade controls the whole or a part of the capital stock of another corporation carrying on a competitive business, it shall be liable to prosecution, unless it shall file with the commission a petition showing that the control of the stock in this way is not destructive of competitive conditions. Wherever corporations engaged in interstate trade issue stock in payment for property or services, they must file a petition with the commission describing such property or services, and the commission is required to investigate the matter. Individuals are permitted to sue for violations of the proposed act just as they can at present sue for violations of the Sherman act; and while a government suit under the anti-trust law is pending the statute of limitations must be suspended in so far as private interests are affected. Thus the Newlands bill covers practically the whole ground that has been included in the Democratic platform and in President Wilson's various anti-trust promises. The Covington and Clayton bills cover substantially the same field as that of Senator Newlands, although in a slightly different way, the Covington bill providing individually for the creation of a trade commission which shall exercise substantially the functions already sketched in the Newlands bill. These functions are, however, less explicitly provided for by Mr. Covington than by Senator Newlands. The Clayton bill itself is similar to the Clayton bill of last winter already reviewed in these pages, and deals with questions of personal liability or guilt, methods of prosecution, and the like, under the anti-trust laws. At a party caucus in the House of Representatives on May 12, these anti-trust measures were given the right of way over all other legislation at this session of Congress with the exception of appropriation bills. In the Senate, it had been arranged by the leaders to give the anti-trust bills position next after the appropriation bills and the Panama tolls repeal act now under discussion. Thus is assured the opening of another lengthy debate on the question of industrial monopoly. Although it is to be furthered by all means within the power of the party leaders the adoption of the legislation at this session of Congress is not assured, owing to the growth of divisions within the majority party, and the desire to end the session of Congress. Whether legislative action shall be had at once or not, enough has already been done to give the trust question a new start and to furnish a fresh basis of discussion from which it may be expected that further debate will henceforward take its departure.